

Message Text

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TAGS: ECON, OECD, SP

SUBJ: EDRC ANNUAL REVIEW OF SPAIN

REF: OECD PARIS 10250

1. EMBASSY IS IN GENERAL AGREEMENT WITH OECD ANALYSIS OF PRESENT ECONOMIC CONDITIONS IN SPAIN (AS SUMMARIZED IN REF-TEL), BUT QUESTIONS CERTAIN CONCLUSIONS DRAWN FROM THIS, IN PARTICULAR EMPHASIS GIVEN TO NEED FOR STIMULATING SPANISH ECONOMY RATHER THAN TO TRYING TO REDUCE PRESENT EXCESSIVE LEVEL OF INFLATION. GOS IS CURRENTLY PURSUING A RATHER EXPANSIVE POLICY ALTHOUGH THERE ARE MANY IN GOVERNMENT WHO DISAGREE WITH THIS APPROACH, AND AT LEAST SOME, WE UNDERSTAND, WHO ARE MOST UNHAPPY WITH OECD SUGGESTIONS WHICH THEY FEEL CALL FOR STILL MORE OF THE WRONG THING. MANY ARE PARTICULARLY CONCERNED ABOUT EXCESSIVE BUDGETARY DEFICIT. THERE IS NO DOUBT THAT UNEMPLOYMENT IS INCREASING PROBLEM FOR GOS, BUT EVEN IF, AS MANY MAINTAIN, IT IS TWICE OFFICIALLY ANNOUNCED LEVEL OF 2.1 PERCENT, IT IS STILL

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MANAGEABLE. INFLATION COULD GO HIGHER THAN ESTIMATED 17

PERCENT IN 1975 AND POSES BOTH SEVERE ECONOMIC DISLOCATIONS AT THAT LEVEL AND POLITICAL PROBLEMS AS WELL, ALTHOUGH GOS CONTINUES TO FEEL UNEMPLOYMENT IS GREATER POLITICAL THREAT.

2. BALANCE OF PAYMENTS IS FURTHER AREA WHERE GOS TECHNO-CRATS ARE RIGHTLY SHOWING INCREASING CONCERN, DESPITE STILL HIGH LEVEL OF RESERVES. PRESENT ESTIMATES OF CURRENT ACCOUNT DEFICIT ARE MORE OFTEN CLOSER TO \$3 BILLION OR ABOVE RATHER THAN \$2.5 BILLION FORECAST BY OECD, AND FIGURES FOR FIRST TWO MONTHS SHOW TRADE DEFICIT 39 PERCENT ABOVE 1974. GOS HAS RECENTLY UTILIZED 1974 IMF OIL FACILITY, AND IT WOULD BE USEFUL TO KNOW THEIR INTENTIONS REGARDING 1975 ALLOCATION AND OTHER PLANS FOR FOREIGN BORROWING THIS YEAR.

3. GOS HAS RECENTLY INTRODUCED PACKAGE OF FISCAL AND INCOMES MEASURES AIMED AT INFLATION AND BALANCE OF PAYMENTS PROBLEMS. PROBABLE EFFECT OF THESE MEASURES REMAINS UNCERTAIN, BUT THEY ARE CONSIDERED TO BE RATHER MODERATE. IT WOULD BE INTERESTING TO KNOW WHETHER SPANISH VIEW THESE AS BEING GENUINELY EFFECTIVE OR MORE COSMETIC.
STABLER

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